

## Message Text

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PAGE 01 JAKARTA 12889 020700Z

14

ACTION EA-14

INFO OCT-01 ISO-00 EB-11 COME-00 INT-08 SCEM-02 TRSE-00

CIAE-00 DODE-00 INR-10 NSAE-00 PA-04 RSC-01 USIA-15

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R 020630Z NOV 73

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 9408

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

UNCLAS JAKARTA 12889

E.O. 11652: N/A

TAGS: ENRG, ID

SUBJ: OCAL: SHELL SIGNS COAL EXPLORATION AGREEMNT

REF: JAKARTA A-187

1. SUMMARY. DUTCH FIRM AND INDON STATE COAL COMPANY RECENTLY SIGNED TWO-YEAR CONTRACT FOR COAL EXPLORATION IN SOUTH SUMATRA. THIS IS FIRST CONTRACT SIGNED SINCE GOI ANNOUNCED SEVERAL MONTHS AGO FOREIGN COMPANIES WOULD BE PERMITTED TO EXPLORE FOR COAL IN HIGHLY PROSPECTIVE AREAS PREVIOUSLY RSERVED SOLELY FOR STATE COAL COMPANY. END SUMMARY.

2. ON OCTOBER 25 P.N. TAMBANG BATUBARA (STATE COLA COMPANY AND N.V. SHELL MIJNBOUW (DUTCH FIRM) SIGNED TWO-YEAR COAL EXPLORATION AGREEMENT INVOLVING 71,480 SQUARE KM. NEAR BUKIT ASAM COLA MINES (SOUTH SUMATRA) SPECIFYING MINIMAL ANNUAL EXPLORATION EXPENDITURE OF ONE MILLION DOLLARS. CONTRACT REQUIRES SHELL TO BEGIN EXPLORATION ACTIVITIES WITHIN SIX MONTHS UNDER GUIDANCE FOUR-MEMBER (2 SHELL, 2 BATUBARA) OPERATIONS COMMITTEE.

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PAGE 02 JAKARTA 12889 020700Z

3. AGREEMENT REPORTEDLY INCLUDES UNDERSTANDING SHELL AND

BATUBARA WILL NEGOTIATE FUTURE AGREEMENT FOR ADDITIONAL SHELL EXPLORATION IN AREA NOW OPERATED BY BATUBARA. DEPENDING ON RESULTS INITIAL COOPERATIVE EFFORT, INCLUDING TECHNICAL ASSISTANCE TO BE PROVIDED BY SHELL FOR REHABILITATION OF EXISTING BATUBARA MINES, SHELL AND BATUBARA MAY ALSO ENTER INTO AGREEMENT TO INCREASE BATUBARA'S PRESENT PRODUCTION.

4. CONTRACT REQUIRES SHELL TO TURN OVER ALL EXPLORATION DATA TO BATUBARA WITH UNDERSTANDING THAT, IF RESULTS POSITIVE, BATUBARA WILL ENTERTAIN BIDS FOR PRODUCTION OF PROSPECTIVE AREAS WITH SHELL GUARANTEED PARTICIPATION IN TENDER.

5. COMMENT. SIGNING OF SHELL-BATUBARA CONTRACT CAME FEW DAYS AFTER PRESS REPORT OF MODERATELY LARGE COAL DISCOVERY IN SOUTH SUMATRA (JAMBI AREA) BY RIO TINTO BETHLEHEM OPERATING UNDER GENERAL MINING CONTRACT OF WORK AND ONLY FEW MONTHS AFTER GOI ANNOUNCED IT WOULD CONSIDER FOREIGN PARTICIPATION IN STATE COAL COMPANY OPERATIONS. (REFAIR.) MOBIL OIL AND MARUBENI HAVE ALSO REPORTEDLY EXPRESSED INTEREST IN COAL EXPLORATION. REHABILITATION OF EXISTING MINES AND EXPANSION OF INDON COAL PRODUCTION COMES AT A TIME WHEN THE OPPORTUNITY COST OF CONTINUED DOMESTIC UTILIZATION OF HIGH VALUE LOW SULPHUR INDON CRUDE IS RISING RAPIDLY AND WHEN GOI IS ATTEMPTING TO DEVELOP ENERGY POLICY FOR MORE RATIONAL USE OF ALL ENERGY RESOURCES (SEE SEPTEL).

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